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18 September 1963

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FROM : Chief, Publications Staff, ORR
SUBJECT : Transmittal of Material

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Peiping Cuts Back Soviet Imports in Order to Reduce Outstanding
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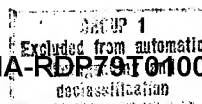
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Current Support Brief

PEIPING CUTS BACK SOVIET IMPORTS
IN ORDER TO REDUCE OUTSTANDING DEBTS TO THE USSR



CIA/RR CB 63-73

30 August 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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S-E-C-R-E-T

PEIPING CUTS BACK SOVIET IMPORTS
IN ORDER TO REDUCE OUTSTANDING DEBTS TO THE USSR

Recently released Soviet data show that Communist China generated an export surplus of \$283 million in its 1962 trade with the USSR, 1/ reflecting the determination of the Chinese leadership to pay off debts to the USSR as quickly as possible, in spite of the perilous state of the Chinese economy. The planned character of intra-Bloc trade excludes the possibility that an export surplus of this size could have been fortuitous. Moreover, the possibility of a Soviet refusal to honor delivery commitments to Communist China is unsupported by the available evidence. This effort to wipe out debts to the USSR may well be a preliminary step toward reorientation of China's foreign trade away from the Bloc and toward the Free World.

1. Early Repayment

The wording of the 1962 Sino-Soviet trade protocol ("in light of the desire of the government of the Chinese People's Republic") reveals that it was at Peiping's initiative that part of China's 1962 export surplus was applied toward prepaying debts not falling due until 1964-65. 2/ The continuation of this policy in 1963 is suggested by Peiping's reported request for a sharp reduction of the originally scheduled quotas for Soviet exports to China in 1963. The extension of this policy to Chinese debts to other Soviet Bloc countries is indicated by a statement of Poland's Minister of Foreign Trade, Witold Trampczynski, that "the Chinese were insisting on paying off all their long-term commitments to Poland and proposed to complete the operation by 1964, although some need not have been paid off until 1966-67." 3/ The Chinese people have been told, moreover, that China is paying off its debts in spite of the unsocialist attitude of the USSR. 4/

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2. Remaining Debt

The Soviet foreign trade statistics showed a trade turnover of \$749 million between China and the USSR in 1962 -- a decline of 19 percent from the level of 1961. Chinese exports declined by only 6 percent to \$516 million (see Table 1) while imports registered a much sharper drop (37 percent) to \$233 million (see Table 2). Peiping's export surplus was used to make previously scheduled debt repayments of about \$170 million and an unprecedented prepayment of about \$100 million on debts not falling due until 1964-65. As a result, China's total outstanding debt owed the USSR may now be on the order of some \$450 million. There seems little likelihood that China will be able to generate an export surplus of this size in 1963. Nevertheless, if China's leaders continue their policy of maintaining a large export surplus with the USSR, the remaining debts might be liquidated in 1964.

3. Changing Structure of Commodity Trade

The sharp reduction in Chinese imports from the USSR was achieved largely through a drastic cut in imports of machinery and equipment, which were reduced from \$108 million in 1961 to \$27 million in 1962. Chinese imports of equipment for complete plants were cut even more sharply, from \$79 million in 1961 to \$9 million in 1962. Reductions also occurred in Chinese imports of raw and processed materials -- chiefly in imports of petroleum products, which fell by about one-third. The decline in imports of foodstuffs reflected the absence of about \$45 million worth of sugar received under a credit in 1961. Total Chinese exports to the USSR declined by only \$35 million from the level in 1961, largely the result of decreased exports of wolfram and nonferrous metals, whereas textiles and most other commodities remained at approximately the same level as in 1961.

The trend of China's foreign trade for the past several years has been toward non-Communist countries, whose share has increased from 31 percent in 1959 to about 50 percent in 1962. In the last 2-1/2 years, China has sent many delegations to visit West European and Japanese equipment manufacturing firms, although few contracts have been signed.

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These delegations collected technical data and market information and expanded China's ties with large Western manufacturing firms -- results that could be useful in the event that China should decide to shift its purchases of machinery to non-Communist countries. These events, together with China's efforts to pay off its obligations to the Soviet Bloc, suggest that the Chinese leaders may be preparing for a major reorientation of their trade.

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Table 1

Communist China: Exports to the USSR a/
1959-62

Commodity Group	1959		1960		1961		1962	
	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total
Agricultural products	<u>452</u>	<u>41</u>	<u>266</u>	<u>31</u>	<u>69</u> b/	<u>13</u>	<u>57</u>	<u>11</u>
Edible	297	27	170	20	37 b/	7	38	7
Inedible	155	14	96	11	32	6	19	4
Minerals and metals	<u>146</u>	<u>13</u>	<u>131</u>	<u>15</u>	<u>98</u>	<u>18</u>	<u>74</u>	<u>14</u>
Chemicals	<u>30</u>	<u>3</u>	<u>22</u>	<u>3</u>	<u>8</u>	<u>1</u>	<u>6</u>	<u>1</u>
Of which:								
Crude rubber	18	2	7	1	0	0	0	0
Manufactures	<u>455</u>	<u>41</u>	<u>413</u>	<u>49</u>	<u>361</u>	<u>65</u>	<u>376</u>	<u>73</u>
Of which:								
Textiles and haberdashery	356	32	332	39	302	55	300	58
Shoes	38	3	44	5	18	3	20	4
Unidentified	<u>17</u>	<u>2</u>	<u>16</u>	<u>2</u>	<u>15</u> b/	<u>3</u>	<u>3</u>	<u>1</u>
Total	<u>1,000</u>	<u>100</u>	<u>848</u>	<u>100</u>	<u>551</u>	<u>100</u>	<u>516</u>	<u>100</u>

a. 5/
b. Chinese grain worth about \$18 million has been subtracted from the unidentified group (as shown in the original source) and added to edible agricultural products to account for the grain that China imported from Canada, and reexported.

Table 2

Communist China: Imports from the USSR a/
1959-62

Commodity Group	1959		1960		1961		1962	
	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total	Million US \$	Percent of Total
Agricultural products	0	0	0	0	64	17	21	9
Materials	<u>198</u>	<u>21</u>	<u>193</u>	<u>24</u>	<u>171</u>	<u>47</u>	<u>130</u>	<u>56</u>
Petroleum products	118	12	113	14	121	33	80	34
Minerals and metal products	66	7	64	8	40	11	34	15
Other materials	14	1	16	2	10	3	15	6
Manufactures	<u>604</u>	<u>63</u>	<u>508</u>	<u>62</u>	<u>112</u>	<u>31</u>	<u>38</u>	<u>16</u>
Machinery and equipment	598	63	504	62	108	29	27	12
Equipment for complete plants	400	42	374	46	79	22	9	4
Automobile and railroad equipment	110	12	50	6	7	2	10	4
Agricultural equipment and tractors	9	1	9	1	2	1	2	1
Other machinery	79	8	71	9	21	6	7	3
Other manufactures	6	1	4	Negl.	4	1	10	4
Unidentified	<u>152</u>	<u>16</u>	<u>116</u>	<u>14</u>	<u>21</u>	<u>6</u>	<u>46</u>	<u>20</u>
Total	<u>954</u>	<u>100</u>	<u>817</u>	<u>100</u>	<u>367</u>	<u>100</u>	<u>233</u>	<u>100</u>

a. 6/. Because of rounding, components may not add to the totals shown.

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